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Kennecott

COPPER CORPORATION

Annual Report · 1961

FORTY-SEVENTH ANNUAL REPORT

for the year ended December 31,

1961

KENNECOTT COPPER

CORPORATION

General Offices: 161 East 42nd Street, New York 17, N. Y.

Contents

The annual meeting of stockholders of Kennecott Copper Corporation will be held at 11:00 a. m. (Eastern Daylight Time), Tuesday, May 1, 1962 in the Terrace Ballroom of The Statler Hilton Hotel, 7th Avenue and 33rd Street, New York City. A formal notice of the meeting and proxy statement, together with a form of proxy, will be mailed to stockholders on or about March 30, 1962, at which time proxies will be solicited by the management.

President's Letter

TO THE STOCKHOLDERS:

Earnings and Dividends

Consolidated earnings of Kennecott and wholly-owned subsidiaries in 1961 amounted to $5.60 per share as compared with $7.00 reported in 1960. Although domestic business improved and earnings from our Western Mining Divisions exceeded those of 1960, earnings were substantially lower at the Braden Division in Chile because of additional taxes, higher costs, lower prices, and reduced volume. Dividends to the stockholders were $5.00 per share, the same amount as paid in 1960.

Copper Demand and Price

With the gradual and progressive increase in industrial activity in the United States in 1961, copper industry deliveries to domestic fabricators increased from 1,279,745 to 1,425,535 tons, highest since 1956. Deliveries to foreign fabricators reached a new all-time record of 2,328,355 tons, up slightly from 1960. This free world apparent consumption of copper at 3,753,890 tons was in reasonable balance with 1961 refined production, estimated at 3,704,368 tons. (Figures quoted as compiled by Copper Institute). This production figure is not representative of capacity in the industry, since some producers (including Kennecott) cut back operations early in the year, and substantial tonnage also was lost because of strikes.

To date, the improvement in United States industrial activity is continuing, and European demand remains at a high level. Some buying may be the result of inventory accumulation in anticipation of possible labor difficulties or political unrest in some producing areas.

Kennecott's total shipments to domestic and foreign customers in 1961 increased 51,100 tons to 591,700 compared with 540,600 in 1960. United States deliveries increased 27%, but shipments to foreign fabricators decreased 17%, reflecting in part the lesser tonnage available due to strikes at Braden.

The domestic producers price was 29 cents at the beginning of 1961, moving up to 31 cents in May. This compared with a 33-cent producers price effective in 1960 until October. The London Metal Exchange quotation showed a somewhat wider spread in 1961, ranging from an average low of 27.6 cents in January to 30.3 cents in May as compared with a 1960 high of 33.1 cents.

The over-all average price received by Kennecott for copper in 1961 was 29.3 cents, down from the average of 31 cents in 1960. Our domestic price is currently 31 cents, with the LME price about 29½ cents.

Mining Operations

All properties were operated at capacity during the year except for normal vacation shut-downs, a 21-day strike at the Utah Division, the two illegal strikes totaling 50 days at Braden, and the cut-back to six-day operations at domestic divisions in February and March to relate production to demand at that time.

During the year the new ore haulage tunnel at the Utah Division was placed in operation. Work continued on the incoming materials handling equipment at the Utah Smelter, and this phase of smelter modification will be in use in 1962. Extension of precipitation facilities at Utah and Chino will permit greater precipitate copper production from those properties.

The new skip-haulage system at Chino, erected during 1961, started operations shortly after the year-end and will permit ore production from lower levels of the mine at a lesser cost.

As the result of investments made at Braden in 1961, operations can be maintained at close to capacity throughout the year with improved copper recovery from the ore.

Fabricating Subsidiaries

Although volume of mill products produced and sold by Chase Brass & Copper was somewhat higher in 1961 than in the previous year, highly competitive conditions continued in the industry with an adverse effect upon earnings of this subsidiary. At Okonite, Kennecott's wire and cable subsidiary, equally competitive conditions prevailed with a similar effect upon earnings.

At Chase new equipment and a revised selling program should improve its position. New products developed by Okonite and some new facilities should also improve the situation at this subsidiary.

Quebec Iron and Titanium Corporation

This partially-owned subsidiary made a particularly good showing in 1961 with sales up over 13% and net profit up 60%. With two years of profitable operations it was possible to begin repayment of the advances made by the parent companies over past years. The outlook for Q. I. T.'s products is satisfactory, and technical improvements are permitting greater production from existing facilities.

1962

At this time the outlook for the copper industry in 1962 appears reasonably satisfactory. Adequate demand for the first half seems assured, and in this country a good level of industrial production in the last six months could offset any current stock-piling.

Labor contracts at Braden expire this month, and negotiations are now under way. At the Western Mining Divisions contracts with our principal unions expire at the end of June.

By order of the Board of Directors,

Frank R Milliken

President.

March 1, 1962.

Results at a Glance

	1961	1960
Sales and Other Income	**$506,809,000**	$503,341,000
Costs and Expenses (except Taxes)	**$351,529,000**	$319,052,000
Taxes of All Types	**$ 93,383,000**	$106,927,000
Dollars per Share	**$8.45**	$9.67
Net Income	**$ 61,897,000**	$ 77,362,000
Dollars per Share	**$5.60**	$7.00
Distributions to Stockholders	**$ 55,265,000**	$ 55,265,000
Dollars per Share	**$5.00**	$5.00
Depreciation and Retirements	**$ 18,555,000**	$ 17,177,000
Capital Expenditures	**$ 32,892,000**	$ 25,342,000
Net Worth—Book Value	**$748,478,000**	$741,821,000
Dollars per Share	**$67.72**	$67.11
Average Number of Employees	**26,885**	27,205
Number of Stockholders	**92,297**	91,675

Review of Mining Operations

COPPER

As shown in the accompanying table, total copper production in 1961 was slightly below that of 1960, with domestic production at the highest level since 1956, almost offsetting a decline in Chilean production.

Strikes during the year, lasting 50 days at Braden in Chile and 21 days at the Utah Division, together with a planned reduction in the workweek during part of the first quarter at our domestic divisions, limited production to the amount shown.

Of particular interest is the improvement in copper production at the Chino and Ray Divisions, the latter property producing 33% more copper than its average for the past six years as the result of expansion plans now substantially completed.

Reversing slightly the trend of recent years, the copper content of the ore mined in the United States in 1961 due to a temporary situation at Chino was higher than that of 1960.

Production of important by-products—molybdenite, gold and silver—was as follows:

	Molybdenite (000 Pounds)	*Gold (Fine Ounces)*	*Silver (Fine Ounces)*
1961	25,814	363,586	2,926,993
1960	27,426	396,839	3,700,784

Western Divisions

The new skip hoist installation at the Chino Division was completed and under test by the year-end. On February 1, 1962, it was placed in production status and will move 2,000 tons of

Divisions	Total Copper Produced From All Sources (Net Tons)		Ore Mined and Milled (Net Tons)		Pounds of Copper Per Ton of Ore Mined	
	1961	**1960**	**1961**	**1960**	**1961**	**1960**
Chino Mines	**74,465**	62,725	**7,123,800**	7,274,700	**17.7**	14.8
Nevada Mines . . .	**45,840**	47,439	**7,488,056**	7,354,606	**15.7**	15.8
Ray Mines	**64,170**	58,799	**7,428,104**	6,526,814	**18.0**	18.0
Utah Copper . . .	**210,606**	215,125	**27,839,700**	28,060,300	**16.2**	16.2
Total Domestic . . .	**395,081**	384,088	**49,879,660**	49,216,420	**Avg. 16.6**	16.2
Chilean	**175,893**	187,221	**10,748,794**	11,518,005	**38.2**	39.9
Grand Total	**570,974**	571,309	**60,628,454**	60,734,425	**Avg. 20.4**	20.7

When pits reach depths that are excessive for ore haulage by rail or truck, "skip" or incline hoists are sometimes employed to bring material to the top of the pit. Kennecott has two such hoists, the most recently installed being the one at the Chino Mines Division (shown in the accompanying photograph), which makes possible more economical mining at lower levels in the pit. The hoist consists of two 40-ton cars, or "skips," working in balance, traveling up and down the sides of the pit on a 1400-foot track. The bins at the bottom are loaded by trucks, and the skips, in turn, are loaded from the bins. As a loaded skip is hoisted to the unloading station at the top of the pit, an empty skip rolls down for loading. Ore from the unloading stations is carried to the mill by electric trains as in the past.

material per hour. As shown above, the grade of ore at Chino in 1961 was substantially higher than in 1960 and above the over-all average of the mine. The continuing expansion of precipitation facilities (for recovering copper from waste dumps) made possible the recovery of 22,000 tons of copper in 1961, an 18% increase over the precipitate production in the previous year. During 1962 a new molybdenite recovery circuit and extension to the copper flotation circuit will be constructed at Chino, increasing recoveries of both molybdenite and copper.

At the Nevada Division, with a reduced work force, new records were established in the tonnage moved and the ore milling rate. The skip hoist installed in 1959 has now moved over 9½ million tons of material at a considerable saving over prior methods of haulage. Process control improvements at the mill and new waste heat boilers and coal preparation facilities at the smelter are among projects now under construction.

A new record in ore and waste handled and copper production was also set in 1961 at the Ray Division, despite a serious water shortage encountered in the summer months, occasioned by two abnormally dry years in succession. Steps are being taken to locate additional sources of water, and this program, together with facilities for reclaiming process water, will alleviate the problem in the future. All elements of the expansion program at this division are now operating satisfactorily and are handling in excess of the planned mining and milling capacity.

At the Utah Division regular haulage through the 5490 level tunnel began on May 27, 1961. This $11 million project was undertaken to reduce the cost of transporting ore from the lower levels of the mine. Work continued during the year on conversion of the smelter, and it is expected that the first phase, replacement of the incoming materials handling facilities, will be in operation during the second quarter of 1962. Engineering studies on additional planned modification of the smelter are under way, but no large expenditures are contemplated in the immediate future. Leaching experiments are being conducted at the mine to determine the advantages of controlled acidity of leaching water and bacterial oxidation on copper recovery from the dumps.

The Kennecott Refining Corporation, which started operations in 1959, has been able to refine the tonnages available to it from Kennecott's various divisions. Marked progress was made during the year in eliminating the mechanical problems inherent in the start-up of a new plant. The continuous casting of billets, ranging from 3 inches to 5 inches in diameter, is now being carried on at a rate of 3,000 tons per month.

During the year all divisions continued to apply, where possible, instrument control and mechanization mentioned in past reports. Emphasis has been placed on metallurgical improvements, methods improvement, and manpower utilization to reduce over-all costs.

Computers entered into operations to a greater extent during 1961, and these activities will be extended in the future. They are being used in payroll, materials and supply, and other related applications.

Computers are also being used in so-called "critical-path scheduling" for new construction and in rebuilding of major units, such as reverberatory furnaces. Most effective use of manpower, time and material, and specialized equipment is assured by these programs.

Braden

As in recent past years practically all of Braden's production was consumed in European markets. Braden 3 Star Brand and Braden Blister copper accounted for more than 69% of sales in 1961.

Mine, mill, and smelter tonnages were substantially lower than in the previous year, the result of illegal strikes in May and August, which halted production for a total of 50 days. In August, for the first time in recent years, all of the large copper mining companies' workmen were on strike together in support of contract negotiations at only one property.

During 1961 capital investments of approximately $6 million were made, the effect of which will increase the capacity to produce copper by some 11,200 tons annually. Two coordinated projects were completed during the year to accomplish this increase. One, the physical tie-in with the local electric utility will permit close to capacity operations year-round by supplying power to supplement the company's hydro-electric plants. The other is a chemical treatment plant designed to recover copper from the mill tailings water.

These expenditures will also eliminate the obligation for 1961 to purchase noninterest bearing Chilean Government bonds required under the special reconstruction bill, passed following the disastrous earthquakes of 1960 and outlined in last year's report.

Other expenditures, approximating $4 million, provided additional housing, new office facilities, and railroad equipment.

OTHER MINING OPERATIONS

Tintic Division

In the continued development of the silver, lead, and zinc property at East Tintic, Utah, sinking of the inclined shaft was slowed by caving ground, heat, and water. Consequently, the opening and sampling of the major ore-bearing zones, which occur below the water table, have not as yet been accomplished. However, drilling continued to indicate additional ore.

Tin and Associated Minerals, Ltd.

The earnings of this partially-owned Kennecott subsidiary, located in Nigeria, were adversely affected in 1961 by declining demand and lower prices for columbite. The company shipped 520,000 lbs. of this product during the year compared with 840,000 lbs. in 1960.

An improvement in demand for columbite developed late in the year as a result of increased consumption of ferrocolumbium by several major steel companies which produce low carbon columbium steels. It is expected that most of T.A.M.'s 1962 columbite production, approaching one million pounds, will be sold.

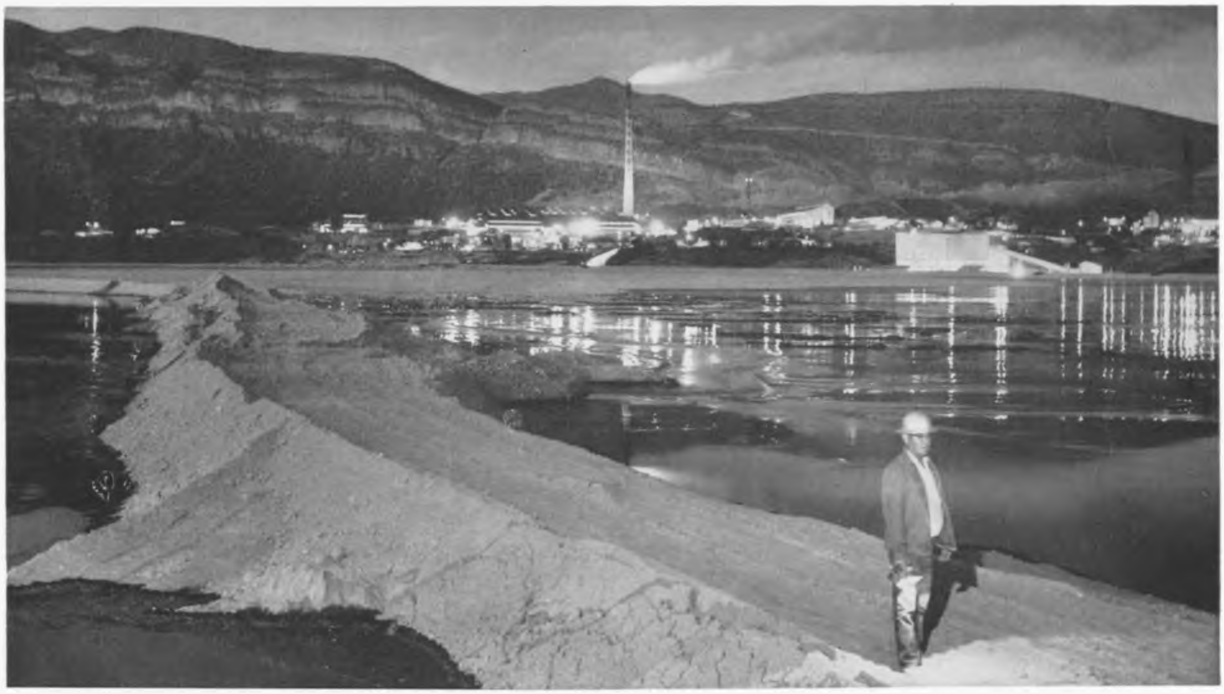
Quebec Columbium, Ltd.

Exploration drilling at this property, in which Kennecott holds a 45.9% interest, was continued in 1961 to define further the known ore deposits. In view of the present ample supply of columbium concentrates from other sources, production at this property is not justified at this time. The company was placed on an inactive basis at the end of the year.

EXPLORATION AND DEVELOPMENT

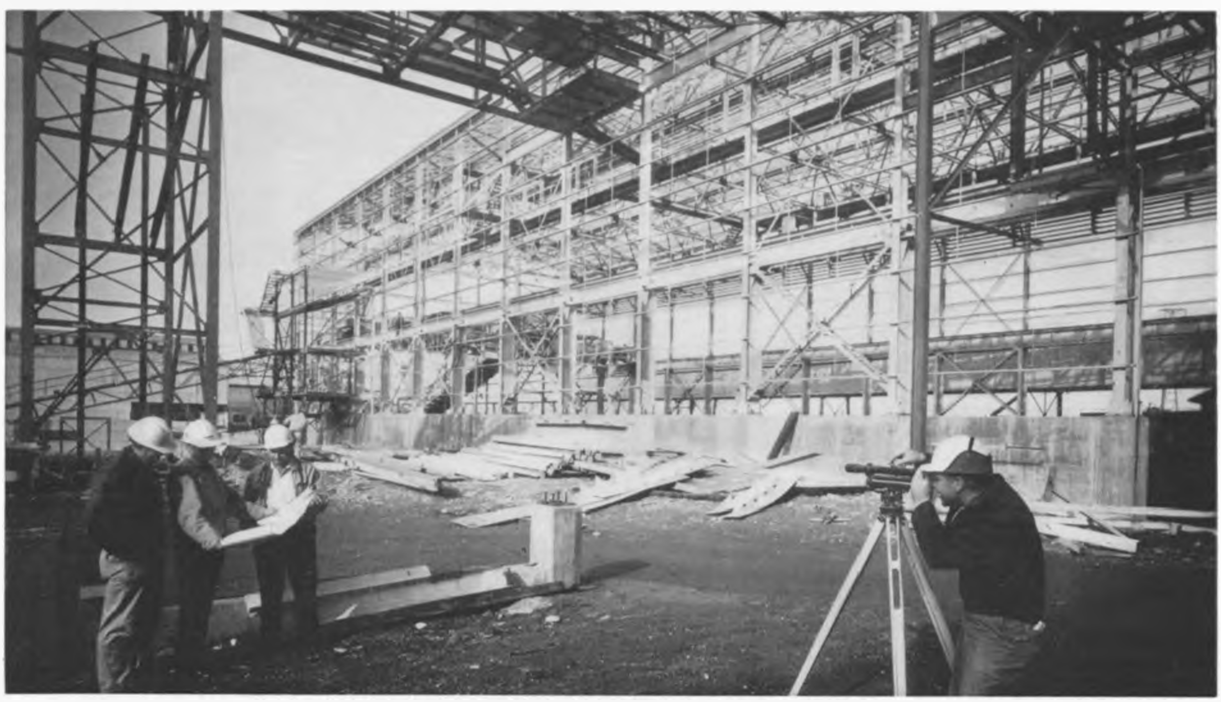
The company's exploration efforts continued throughout the year with most of the program being undertaken in the United States and Canada.

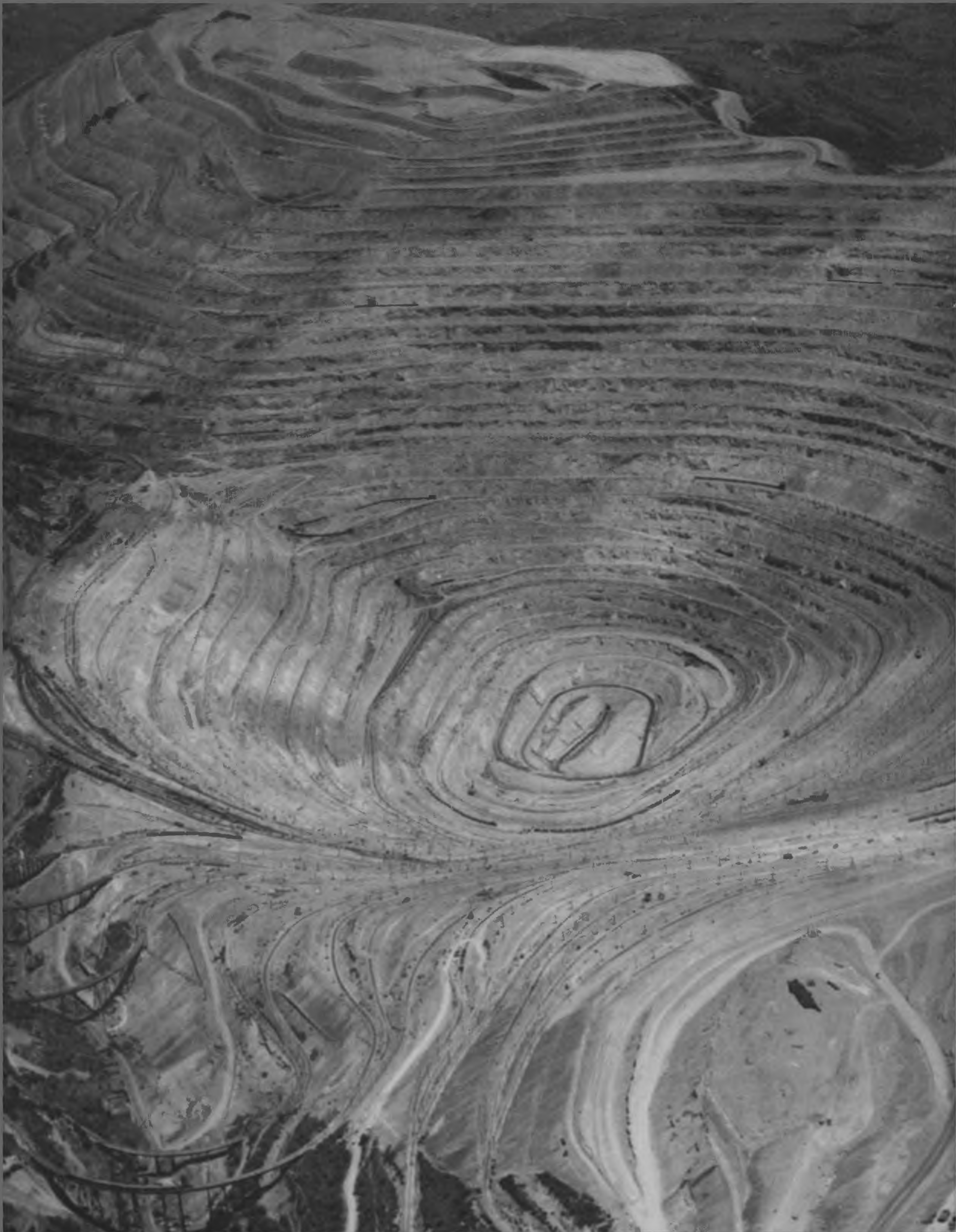
Prospecting for base metals through the centuries has led to the discovery of most of the orebodies which are easily recognizable in rock outcrops at the surface of the earth. It is presently necessary, therefore, to seek indirect evidence of the presence of deposits beneath the surface. To this end investigations are being conducted in the vicinity of known mining districts in quest of clues more subtle than those which have been used in the past. Included in the indications being sought are physical and chemical data which lend themselves to statistical analysis. It is expected that such information will be useful in reconnaissance for hidden deposits in the western United States and Canada to supplement the present practices



Disposal of waste tailings (the powdered material from which the copper has been extracted) is a problem of major magnitude. The tailings are disposed of by pumping them into "ponds," which are veritable lakes. The photograph above is of the tailings pond at our Ray Division in Arizona.

Framework for the incoming materials handling equipment at the Utah Smelter rises against the skyline. This is part of the modification project to convert the smelter to individual Company use.





of geologic mapping, geochemical analysis, and geophysical surveys.

Because indirect evidence does not reveal the presence of a mineral deposit with the same precision as do outcrops of the orebody itself, much more drilling is required for discovery and testing. Diamond drilling was carried out at numerous sites, and results warranted more drilling in 1962 at several of them, including copper prospects at Santa Isabel, Puerto Rico, and Galore Creek, British Columbia.

At the Safford, Arizona, copper deposit, the development shaft was completed in April, 1961, and 3,000 feet of underground workings were driven from the shaft into and within the orebody. From these workings an extensive program of underground diamond drilling is under way; the objective of this drilling is to delineate in further detail the extent, grade, and mineralogical nature of the orebody. Bulk sampling of ore mined in these workings has supplied material which is currently being processed in a pilot plant recently erected at the property. The data thus gained will be essential for planning methods of mining and treatment when the time comes for the property to be equipped for production. On the basis of the information acquired to date, however, the company does not expect to put the property into production in the near future.

RESEARCH

Research and development on the leaching of copper from mine waste was intensified during the past year. As a result of joint efforts of research, engineering, and operating personnel, the amount of copper recovered by leaching has been increased, and much information acquired to further improve the effectiveness of this operation. Methods to produce iron to be used for precipitation are being developed, and procedures to improve iron utilization are under study. These and other programs are directed toward increasing the amount of copper to be produced in this manner.

Studies through pilot plant scale operations utilizing oxygen in the smelting of concentrates were continued through 1961, and data are being processed and evaluated. Further investigations and pilot plant operation of electrolytic tank house slimes processing, seeking to improve by-product

Architect's rendering of Kennecott's new center for basic research being constructed at Lexington, Massachusetts. Here scientists will be concerned with the acquisition of fundamental knowledge and the discovery of new scientific facts, particularly in the field of metals.

◀ A recent view of the immense Bingham Mine at the Utah Copper Division. In the center of the photograph may be seen the entrance to the 18,000-foot haulage tunnel placed in operation in 1961. This $11,000,000 project greatly reduces the cost of transporting ore from the lower levels of the mine.

metal recovery and processing costs, were well advanced.

A program for basic research was initiated during the past year. This endeavor will emphasize solid state physics of metals and is aimed at obtaining fundamental knowledge and the discovery of new scientific facts pertaining to the metals industry. The construction of a laboratory on a site in Lexington, Massachusetts, has been started and is expected to be completed near the end of 1962. A building to be used as executive offices is available, and the recruiting of personnel has started.

FABRICATING SUBSIDIARIES

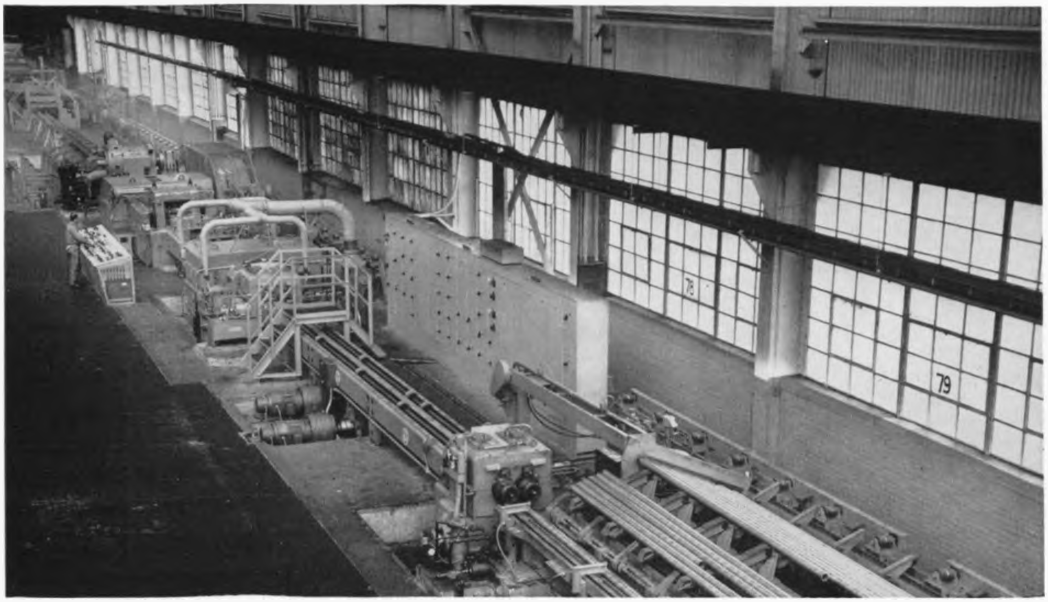
Chase Brass & Copper Co., Incorporated

Volume of mill products shipped in 1961 was somewhat greater than the totals of 1960. However, despite the improved demand and a decline in foreign imports, competitive pressure on prices continued in the industry.

Equipment improvement has contributed to cost reduction and quality advances in Chase's operations. A second smaller twin-tube reducing mill was placed in operation at our Chase Metal Works in Waterbury. This completes the first step in providing for the low cost production of brass and copper tubing under 2 inches in diameter. Modernization of certain hi-speed tube drawing equipment in the Cleveland plant was completed this year. Programs were initiated at both the Cleveland Mill and Chase Metal Works to provide improvements in metal casting facilities. More extensive use of electronic testing equipment has improved over-all quality of Chase products.

A large number of pressure tubes of zirconium alloy for a nuclear reactor were completed. This

A view of the new twin-tube reducing mill recently installed at the Chase Metal Works in Waterbury.



required the use of previously developed techniques in extrusion, butt-welding and cold drawing. The same skills were used in the production of zirconium alloy tubes of nonuniform diameters to be used in the testing of pressure tubes in another nuclear reactor.

A reorganization of Chase's marketing activities was effected during the year. In order to better serve specialized customers, the Chase Metal Service Division was established to handle warehouse sales; the Chase Mill Division will sell mill products directly to large industrial customers, and a separate sales division will concentrate on products for the plumbing, heating, and cooling trades.

The Okonite Company

Volume in terms of both pounds of product shipped and dollar sales declined from 1960. In addition, profit margins on many of Okonite's products were sharply affected by present competitive conditions in the industry.

Emphasis during the year was placed on programs for improving facilities and equipment to meet these competitive conditions. Machinery for making Alpeth and Stalpeth plastic or paper insulated telephone cables was ordered for the Rhode Island plant. This will broaden Okonite's communications cable product line and enable it to obtain a more substantial share of business from the growing telephone industry.

Warehouse facilities were erected at the North Brunswick, New Jersey, plant to improve product distribution.

Present research equipment is being augmented by miniature manufacturing facilities that will permit production and testing of prototype cables under controlled conditions. Used as a pilot plant, these will accelerate development of new and improved cable insulations and coverings.

Of particular interest was a $1 million order received by Okonite from the Puget Sound Power and Light Company for a 115,000-volt oil-filled submarine power cable. Now in production, four of its sections, each nearly three miles long, are the longest lengths ever produced in the United States. Two other unusual orders involved high frequency dielectric cables for the nation's "Early Warning System" and a 5½-inch diameter portable power feeder for the Peabody Coal Company's new 115-cubic yard shovel. Reports from the Cornell Testing facility continue to show that the pioneer 345,000-volt cable possesses remarkable stability. A substantial order for this product has been received.

New products recently introduced include a line of lower-priced instrument control tubing utilizing plastic, an aluminum-sheathed wiring system for industrial and commercial usage, and a new cable sheathing material for high-temperature application.

OKONITE DIVESTITURE SUIT

The suit brought against Kennecott in 1959 by the Department of Justice, charging that the acquisition of The Okonite Company violated Section 7 of the Clayton Act and asking that Kennecott be required to divest itself of Okonite, continued in the pre-trial stage during 1961. A date for trial has not yet been set.

INVESTMENTS

Quebec Iron and Titanium Corporation

In 1961 sales of this subsidiary, two-thirds owned by Kennecott, increased 13.37% over the previous year with net profit up 60% from $3,097,690 to $4,959,500 (Canadian cy.) Dominion income taxes on these earnings were offset by allowable depreciation and other deductions, a condition which should continue for several years. During the year Q. I. T. made the first repayment of advances previously provided by the parent companies. Of the $750,000 repayment made, Kennecott received $500,000.

To meet the increased sales demand, production was maintained at full capacity of all eight furnaces and exceeded the record established in 1960 by 20%. The production figures in gross tons for the past five years are as follows:

	Ore treated	*Titanium slag produced*	*Iron produced*
1961	1,032,122	413,715	277,107
1960	863,726	345,213	221,945
1959	559,205	217,589	145,990
1958	375,832	144,029	105,248
1957	560,049	231,179	167,437

The market for slag continues strong, and the use of high-carbon Sorelmetal for ductile iron is expanding. There has been some pressure on the price of low-carbon iron which, in effect, must compete in world markets with high-grade melting scrap.

The rebuilding of one of the original furnaces and the installation of a third kiln and cooler were completed during the year. Semi-automatic charging and the development of improved techniques have made it possible to operate the furnaces in excess of original design capacities. Additional power required for furnace operation at higher levels is being provided by installation of a 50,000 KVA transformer, which on completion in 1962 will increase slag capacity to 456,000 tons per year, iron to 315,000 tons, and total ore thru-put capacity to 1,200,000 tons.

Construction of a titanium pigment plant by British Titan Products (Canada) Limited at Sorel is well underway and is expected to start production using Q. I. T. slag in the latter half of 1962. Two new pigment manufacturing plants in Europe which were designed to use slag also are nearing completion and began to receive slag in 1961. Atlas Steels, Ltd., has announced plans to construct at Sorel a $40 million plant for production of stainless steel sheet and strip. It is contemplated that this operation will use Q. I. T. low-carbon molten iron as base material. When completed, this plant will be the third in or near Sorel, in addition to many steel and foundry operations in Canada which are being supplied with raw material by Q. I. T.

Agreement has been reached with National Lead Company whereby Q. I. T. will conduct a joint engineering evaluation of the treatment of Norwegian ilmenite concentrate to produce titanium slag and iron.

EMPLOYEE RELATIONS

Employees

The average number employed during 1961 was 26,885 compared with 27,205 during 1960. These figures exclude employees of subsidiaries only partly-owned by Kennecott.

Manpower Development

The increasing complexity of new problems brought on by changing technology requires continuous upgrading and updating of knowledge and skills of managers and employees alike. To that end, both on and off-the-job training and educational activities were pursued vigorously during the year.

In 1961 our apprentice programs graduated 39 employees. At year end there were 211 employees in training under such programs.

Under the Tuition Aid Program approximately 1,100 courses were taken voluntarily by 538 employees, some of whom obtained undergraduate and advanced degrees. A number of our managers, engineers, and other specialists participated in company-sponsored courses or seminars conducted at various universities.

Communications

Throughout the year employees have been kept informed about matters that affect them and

Kennecott's First Inventor-Suggester. Inventor Don G. Marsh, a machinist at the Nevada Mines Division, became the first employee to be granted a patent under the Employee Suggestion and Patent Plan. Mr. Marsh is shown here explaining how his impact-absorbing device reduces breakage of conveyor belt idler supports.

the success of the Corporation. A wide variety of methods and media were employed, including radio, television, employee-supervisor meetings, company magazines, bulletin boards, and special messages to the homes of employees.

Union Relations

In early 1961 new 15-month agreements replacing those that had expired on December 31, 1960, were completed at Braden, our Chilean subsidiary, without work interruption. Later in the year illegal walkouts halted production on two occasions—from May 20 to June 12 and from August 17 to September 9.

Settlements for one-year terms were reached in contracts expiring in June and July at Chino, Nevada, and Ray, without a strike, and at Utah. after a 21-day shutdown. These settlements required negotiations with 39 separate bargaining units affiliated with a total of 18 different international unions. The shutdown at Utah was caused by the strike of one small union after agreements with 17 other unions had been reached. Ultimately, the striking union settled on the same basis as all the others.

At the Kennecott Refining Corporation in Maryland, although the labor agreement expired on December 31, 1961, employees continued to work. A new contract terminating on January 20, 1963, was signed early in January, 1962.

At the Chase Brass & Copper Company, new one-year agreements were concluded for the Cleveland Plant in August and for the Waterbury Plant early in January, 1962. The agreements at the latter plant had expired in November.

All of our major labor contracts will be under negotiation during 1962. The contracts at Braden expire at the end of March, and those at the Western Mining Divisions in June and July. The remaining contracts at subsidiary companies terminate during the last half of the year.

Negotiations this year, as has been the case in the past, will involve a number of complex and difficult problems, and again the solutions will not be easy to find. The Company will continue to give full consideration to the best interests of all those affected—employees, stockholders, customers, suppliers, and the public.

Suggestions

The Suggestion and Patent Plan continues to provide a means whereby eligible employees are rewarded for their good ideas. During 1961 out of a total of 4,424 suggestions submitted under the Plan, 906 were put into effect, resulting in an estimated annual saving to the Corporation of $144,837. For these adopted ideas employees received a total of $50,604 in awards.

Throughout the Corporation a total of 9 patents were applied for and granted with another 33 pending as of year-end.

Employees will continue to be encouraged to develop and submit ideas that will improve the performance of the company.

Safety

The never-ending campaign to eliminate all accidents continued to show favorable results, particularly in our mining divisions.

The Nevada, Ray, and Utah Divisions set all-time low records. Numerous awards from the National Safety Council resulted from these and other records. At all domestic mining divisions, based on nation-wide statistics, the severity and frequency rates remain below those for all manufacturing, and are far below such rates for surface mining.

At Braden safety education and accident prevention efforts were rewarded by records that won the first place award of the Inter-American Safety Council for the fourteenth consecutive year.

Emphasis on the need for off-the-job accident prevention to reduce lost income and to eliminate disabilities from such causes has paid off. Numerous cases can be cited where employees were saved from suffering off-the-job injuries by wearing safety shoes, safety glasses, or other protective equipment.

Off-The-Job Safety Training Saves A Child's Life. Mrs. Ray F. (Faye) Gough, left, with Mrs. Ronald Jorgensen and her son Lance, 1 year, whom Mrs. Gough saved with mouth-to-mouth resuscitation. Mrs. Gough obtained her knowledge of this life saving technique as a result of neighborhood training sessions organized by her husband. During the "Family Night" project Mr. Gough, General Superintendent of Mining and Concentrating at the Utah Copper Division, utilized a film and other materials loaned by Kennecott.

PUBLIC RELATIONS

A sustained effort to develop a public awareness of the decreasing copper content in our ore, of the issues involved in labor negotiations, and the benefits accruing to local areas through taxes, payrolls and purchases of supplies was carried on by the Public Relations Departments in the United States and Chile.

All media were enlisted to extend the program of information and community relations as broadly as possible, stressing Kennecott's recognition of its responsibility as a member of the community interested in the progress of the cities, states, and countries where its operations are located. At the same time the company's position with regard to the recurring problems of air and water pollution, water conservation, and tailings disposal was clarified in communications to the public in affected locales.

Contact with educational groups and schools was stepped up with the utilization of booklets, plant visits, visual aids, and other educational material. Public speaking activities of company personnel before civic groups and technical and professional organizations were intensified in order to develop a wider understanding of company problems and achievements.

The potential limitations to exploration possibilities embodied in the proposed "Wilderness Bill," outlined in the dividend statement of September 22, 1961, were emphasized in testimony before congressional committees and in company publications.

ORGANIZATION CHANGES

With the retirement of Charles R. Cox as President of Kennecott Copper Corporation, Frank R. Milliken was elected as his successor on April 21, 1961. Mr. Cox continued as a Director and Member of the Executive Committee until his untimely death in January, 1962.

Mr. Milliken, prior to his election to the presidency, was Executive Vice President of the Corporation, assuming that position and membership on the Board of Directors in May, 1958.

During the year Edmond A. Guggenheim and Charles Sawyer, Kennecott Directors since 1916 and 1953 respectively, retired from the Board. In March Edward L. Steiniger, President of Sinclair Oil Corporation, and Albert Green, Vice President of the Murry and Leonie Guggenheim Foundation, were elected Directors.

On May 31, L. W. Shelton, General Purchasing Agent, retired after 34 years of dedicated service with Kennecott in the United States and South America. Named to succeed him was Robert G. Rhett who joined the company in March, 1960. Mr. Rhett had previous experience in purchasing and administrative activities in the United States and South America.

Ralph E. Taylor, General Traffic Manager, retired November 30, after a faithful career of 43 years with the company. He was succeeded by Leon J. Souren who entered Kennecott's ranks in 1936 and became Assistant Traffic Manager in 1959.

Dr. Ewan W. Fletcher, formerly with the Massachusetts Institute of Technology, was named Director of Kennecott's new basic research program to be carried out at the laboratory now under construction at Lexington, Mass.

On September 29 Charles D. Michaelson, General Manager, Western Mining Divisions, was appointed Vice President, Mining. Mr. Michaelson joined Kennecott in 1948 as General Superintendent of Braden Copper Company, Kennecott's Chilean subsidiary. John C. Kinnear, Jr., formerly General Manager, Nevada Mines Division, was appointed to succeed Mr. Michaelson. M. J. O'Shaughnessy, formerly Assistant General Manager, was named General Manager at Nevada Mines Division.

Also on September 29 Gordon B. Russell, Comptroller since 1952, was appointed Treasurer and Comptroller. Mr. Russell joined Kennecott in 1941.

James R. Simpson, formerly Treasurer, was named Assistant Secretary of the Corporation. Mr. Simpson is a Director of Kaiser Aluminum & Chemical Corporation.

In December, 1961, Paul Dashine, formerly an executive with various mining and manufacturing enterprises, joined Kennecott in the newly-created position of Manager of Technical Services.

1891 CHARLES R. COX 1962

On January 18 Charles R. Cox, retired President of Kennecott, was killed in an accidental fall from a train. At the time of his death, Mr. Cox was 70 years of age. His passing was a cause of deep sorrow to his many friends in and out of the company. His long experience, wise judgment, and courageous leadership will be missed by all.

Financial Review

Dividends

During 1961 Kennecott paid a dividend of \$1.25 per share in each quarter. As in 1960, cash distributions for the year totaled \$5.00 per share. These distributions in 1961 represented 89% of earnings. Over the past twenty years 75% of Kennecott's net income was paid out to stockholders.

Earnings

Net income in 1961 amounted to \$61,896,860 or \$5.60 per share. Compared with 1960 earnings of \$77,362,412 or \$7.00 per share, net income in 1961 was down 20%. In Chile additional taxes, higher costs, lower prices, and reduced volume all served to decrease earnings. Net income from the sale of Chilean production in 1961 was less than half of what it was in 1960. In the United States increased sales tonnages gave business a brighter tone. Lower prices were more than offset by good volume.

Deliveries and Prices

Kennecott's deliveries of copper in 1961 topped every year since 1952 when the Korean War was stimulating the demand for copper. The 591,734 tons sold in 1961 surpassed 1960 deliveries by almost 10%. The improvement was due entirely to better sales in the domestic market. Deliveries to Europe actually declined slightly because of production losses resulting from strikes in Chile.

Despite a general increase in tons sold by copper producers during 1961, prices rose only modestly from their January lows. In the United States the producers price recovered only half of the ground lost from its 1960 high of 33¢. It climbed from 29¢ early in the year to the present 31¢ per pound by the middle of the year. Likewise on the London Metal Exchange, 1961 monthly averages made only a partial recovery toward the 1960 high of 33.1¢. They rose from 27.6¢ in January, 1961, to 30.3¢ in May and then ran close to 28.8¢ for the remainder of the year.

Under the circumstances of heavy demand matched by adequate supplies, prices did not move up drastically. They firmed and stabilized. The net result for Kennecott was a drop in the average price received per pound of copper from 31.0¢ in 1960 to 29.3¢ in 1961.

Sales and Cost of Goods Sold

Sales and other income in 1961 advanced to \$506,809,412. The 10% increase in copper tonnage sold more than made up for the drop in average price to push revenues \$3,468,754 ahead of 1960.

With 1961 sales dollars depending more on tons sold and less on price per pound, the cost of goods sold rose substantially. Domestic production costs per pound of copper held fairly steady in spite of rising pay scales, but in Chile wage increases were too great to be offset by operating economies.

Chilean Division (Braden Copper Company)

The government of Chile continued to fight against the forces of inflation. The 10% rise in cost of living during 1961 was not as moderate as the 1960 rise of 5%. Nevertheless, it represents a distinct improvement over the 32% and 33% increases recorded in 1958 and 1959.

Throughout the year 1961 the exchange rate remained at 1.05 escudos to the dollar. Hence rising escudo costs for Chilean labor and supplies resulted in an increased dollar cost for copper produced. A second rate for escudos was established on January 15, 1962, and at the end of its first week this free brokers' rate was 1.35 escudos to the dollar. Thus far Braden is still required to purchase escudos for its current operating needs at the lower rate of 1.05 to the dollar.

In 1961 the economy of Chile suffered from a number of strains and the government was forced to seek further revenue. Income tax rates for Braden, already the highest in the world for a copper producer, were increased through two additional taxes. If it were not for these new taxes, Braden would be reporting 43% more income than it now does. The laws enacting these taxes give the President of Chile discretionary power to suspend them in future years.

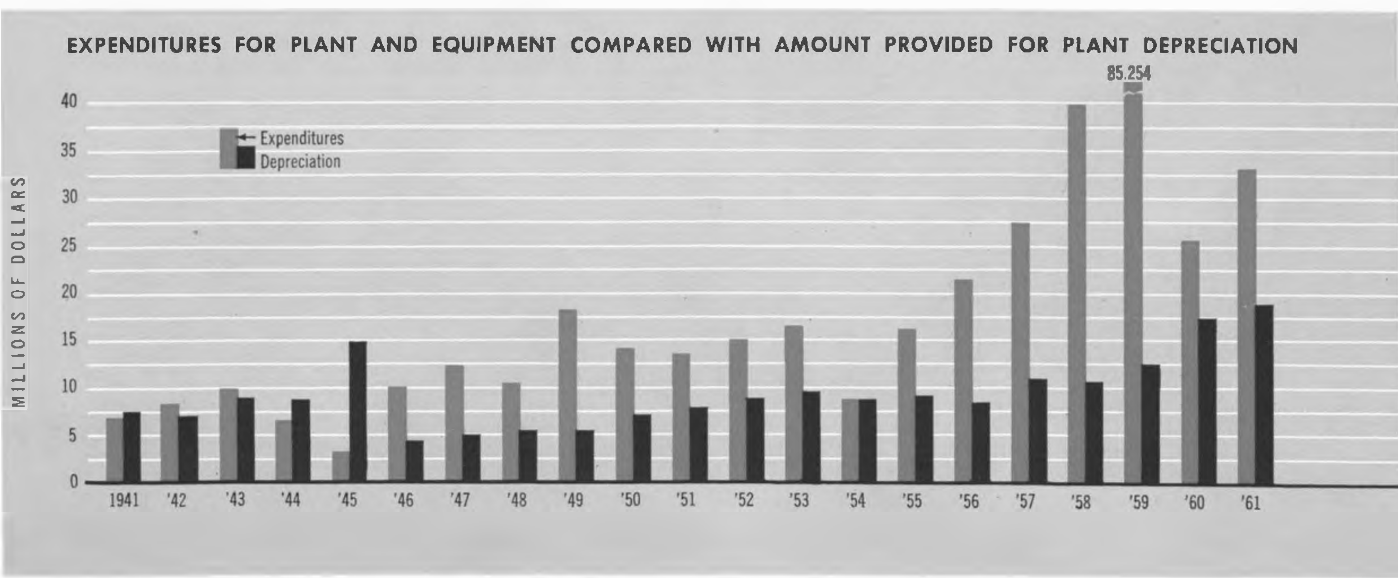
Because of the several adverse factors in 1961 Braden supplied only 18.0% of Kennecott's net earnings as compared with 30.5% in 1960.

Taxes

The percentage of consolidated, pretax earnings set aside for income taxes rose only slightly in 1961. Compared with 1960 the effective Chilean tax rate was higher but applicable to a smaller share of the income.

Total tax provisions for the year 1961 amounted to $8.45 per share as compared with $9.67 in 1960.

	1961	1960
United States and foreign taxes on income	$70,356,294	$ 85,632,636
Other taxes included in operating costs and other accounts	23,027,277	21,294,843
Total	$93,383,571	$106,927,479
Taxes—Per Share	$8.45	$9.67



This chart shows the amount provided each year for depreciation of plant and equipment in comparison with the amount expended for new plant and equipment. The difference must be obtained by reinvesting a portion of net income.

At the Utah Copper Division, largest of Kennecott's operating units, a data processing system is used to maintain the accounting records resulting from 7,500 employees and 40,000 different supply items at four major plant locations in the Salt Lake area.

These tax figures do not include the $1,481,044 additional tax assessments paid against Chilean income mainly for the year 1957. Since review of that tax year for Braden had been completed in 1958, this belated assessment is charged directly to earned surplus. Through legal proceedings the company is trying to reverse this action of the Chilean taxing authorities.

The United States Internal Revenue Service is still conducting its review of Kennecott's 1956 domestic income tax return. Examinations for the company and its wholly-owned subsidiaries have been completed through 1955.

Property, Plant and Equipment

Capital expenditures proceeded in 1961 at a slightly faster rate than in 1960. The 1961 total of $32,892,121 supplied a wide variety of tools and facilities. These expenditures provide a minor increase in production, but their principal aim is to keep Kennecott competitive in the copper markets of the world.

At the Utah Copper Division a major project is the modification of the smelter acquired in 1959.

At the Chino Mines Division work on the new skip hoist was completed at the end of the year. Operation of the $2,250,000 unit began early in 1962.

In Chile steps were taken to provide supplementary sources of power so that production can be maintained close to plant capacity throughout the year.

Depreciation and retirements increased again in 1961. They rose to $18,555,444 as compared with $17,176,787 in 1960. The continued increase in depreciation charges reflects the fact that newly acquired facilities have been added to the depreciation rolls.

Government and Other Short-Term Securities

At the year-end the company's short-term investment portfolio amounting to $81,266.941 was made up principally of United States Government obligations and prime finance company commercial paper. The average maturity of the securities was less than nine months, and the approximate market value at December 31, 1961, was $81,094,000.

Investments

Long-term investments at December 31, 1961, amounted to $83,273,955, very little changed from the end of the previous year. During the course of 1961 Kennecott increased its holdings in The Superior Wire Cloth Company from 68% to 93%. On the other hand, it liquidated entirely its investment in Kenranda Pesquisas Minerais. This Brazilian company had been set up solely to search for mineral deposits in Brazil.

Of special interest in 1961 was the reduction of investment in Quebec Iron and Titanium Corporation. This decrease resulted from repayment by Q. I. T. of $500,000, a portion of the funds previously advanced by Kennecott. As the first such repayment, it symbolizes Q. I. T.'s coming of age.

The nature and status of investments at the year-end is shown in the schedule on page 24. The first part of this schedule lists investments in firms controlled by Kennecott but owned only to the extent indicated. Unlike wholly-owned subsidiaries, these firms do not have their accounts included in the consolidated financial statements of Kennecott Copper Corporation, hence the title, unconsolidated subsidiaries.

Equity in Unconsolidated Subsidiaries

Kennecott's investment in unconsolidated subsidiaries at December 31, 1961, came to $50,170.220. At the same date Kennecott's equity

Equity in Operations of Unconsolidated Subsidiaries

	Percentage of Ownership	*Kennecott's Equity in Profits or (Losses)* 1961	1960
Quebec Iron and Titanium Corporation	66⅔%	$3,178,100	$2,071,570
Tin and Associated Minerals Limited	76	(169,100)	180,996
Quebec Columbium Limited	45.9	In Development Stage	
Garfield Chemical and Manufacturing Corporation	50	1,115.500	663,250
Kenranda Pesquisas Minerais	60	—*	(46,631)
The Superior Wire Cloth Company (68.1% owned in 1960)	92.8	21,700	56,198
Kenbestos Mining Company Limited	95	In Development Stage	
		$4,146,200	$2.925,383

* Operations discontinued in 1961.

in the net worth of these firms amounted to an even larger sum, $58,243,400.

Cash distributions from unconsolidated subsidiaries are included in income with dividends received. Their contribution to dividend income for 1961 is $710,620. Kennecott's equity in the 1961 net profits of these firms, based on unaudited reports, is shown in the accompanying tabulation to be $4,146,200. Not only is this figure well in excess of dividends received in 1961 but also 42% greater than Kennecott's $2,925,383 share in their 1960 profits. The improvement is due to better profits at Quebec Iron and Titanium Corporation.

Executive Incentive-Compensation Awards

Of the $354,514 available from 1961 earnings, $312,500 was awarded as incentive compensation. The remaining $42,014 is no longer available for such a purpose.

The 1961 awards went to 32 employees in recognition of their contribution in a notable degree to the success of the company.

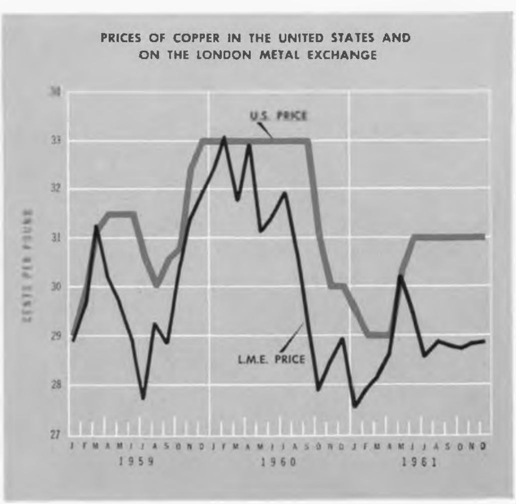
Pension Programs

The company and its consolidated subsidiaries maintain several pension programs to afford future retirement benefits for employees. During 1961, $7,672,411 was provided for the maintenance of pension programs. At year end there were 20,717 employees for whom funding of retirement benefits was being accomplished. In addition, there were 145 employees who were covered by other retirement arrangements in the United States and Chile for whom no current funding of benefits is being provided.

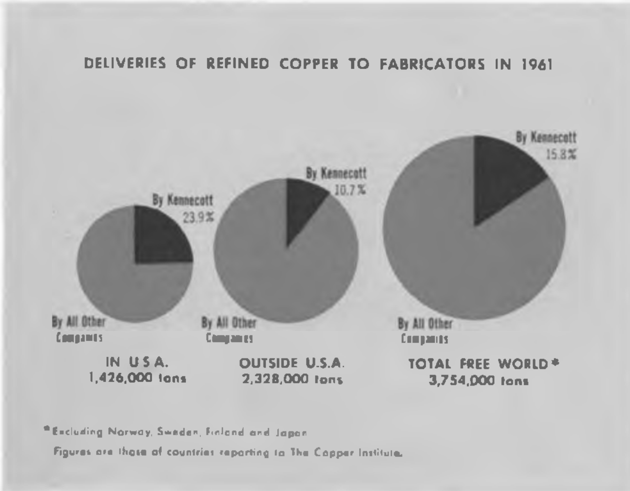
Benefits of $3,020,562 were disbursed during the year with $2,662,566 paid from trust funds and $357,996 paid by the Company. At year-end there were 2.673 retired employees receiving pensions through these programs.

Stockholders

Kennecott's 11,053,051 outstanding shares were held by 92,297 stockholders on November 28, 1961. This is the largest number of stockholder members the Kennecott family has ever had and compares with 91,675 a year earlier.



The U. S. price is the price received by Kennecott and other major U. S. producers for electrolytic copper delivered at consumers' plants in the U. S. The L. M. E. price is that on which most of Kennecott's foreign sales are based and the price on which most foreign producers base their sales. The L. M. E. figures used in the chart represent the average of settlement quotations for electrolytic copper on the London Metal Exchange, converted at the rate of $2.80 to £1.



In 1961 Kennecott's domestic properties accounted for 23.9 per cent of all refined copper shipped to fabricators in the U. S.

In 1961 Kennecott's domestic and foreign properties accounted for 10.7 per cent of all refined copper shipped to fabricators outside the U. S.

In 1961 Kennecott's domestic and foreign properties accounted for 15.8 per cent of all refined copper shipped to fabricators throughout the free world.

Working Capital

Summary of changes which accounted for the decrease in working capital

Working Capital—December 31, 1960		$247,762,539
Additions:		
Net income for the year	$61,896,860	
Exploration expenses previously written off now capitalized	1,506,602	
Depreciation of plant and equipment	18,555,444	
	$81,958,906	
Deductions:		
Distributions to stockholders	$55,265,255	
Expenditures for plant and equipment	32,892,121	
Additional Chilean income taxes assessed against prior years' earnings	1,481,044	
Net change in investments	(592,048)	
Net change in other accounts	(3,457,014)	
	$85,589,358	
Net decrease in working capital		3,630,452
Working Capital—December 31, 1961		$244,132,087

Schedule of Investments

(Excluding Securities Carried as Current Assets)

Unconsolidated Subsidiaries:		
Quebec Iron and Titanium Corporation—stock and advances (66⅔%) .		$45,500,000
Tin and Associated Minerals Limited—stock and advances (76%) . . .		1,652,562
Quebec Columbium Limited—stock and advances (45.9%) . . . . . . (controlled through voting arrangement)		1,266,045
Garfield Chemical and Manufacturing Corporation—stock (50%) . . . (controlled through operating arrangement)		240,000
The Superior Wire Cloth Company—stock (92.8%)		206,200
Kenbestos Mining Company Limited—stock and advances (95%) . . .		1,305,413
		$50,170,220
Other Investments: (having market quotations)	*Market Value*	
Kaiser Aluminum & Chemical Corporation—1,925,000 shares of common stock	$63,043,750	$18,800,000
Molybdenum Corporation of America—118,926 shares of common stock; 14,285 stock warrants . .	3,547,194	3,134,830
Compania de Acero del Pacifico—1,135,139 shares of Series "B" common stock; 40,000 shares of Series "D" preferred stock	421,355	350,000
	$67,012,299	$22,284,830
Other Investments: (no market quotations)		
J. W. Galbreath & Company—notes receivable		$ 6,694,914
Western Phosphates, Inc.—stock and advances		1,655,000
Allied-Kennecott Titanium Corporation—stock		1,350,000
Miscellaneous investments		1,118,991
		$10,818,905
Balance—December 31, 1961		$83,273,955

KENNECOTT COPPER CORPORATION

Financial Statements 1961

Consolidated Statements of Income and Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1961 AND 1960

	1961	1960
CONSOLIDATED STATEMENTS OF INCOME		
Sales and other income:		
Sales of metals and metal products	$501,002,097	$496,483,102
Dividends, interest and miscellaneous	5,807,315	6,857,556
	$506,809,412	$503,340,658
Costs and expenses:		
Cost of goods sold	$326,476,484	$294,949,995
Depreciation and retirements	18,555,444	17,176,787
Selling and general administrative expenses	19,998,791	20,278,209
Shut-down expenses during strikes	3,223,300	1,883,850
Research, general exploration and prospecting, and miscellaneous charges	6,302,239	6,056,769
	$374,556,258	$340,345,610
	$132,253,154	$162,995,048
Provision for U. S. and foreign taxes on income	70,356,294	85,632,636
Net income	$ 61,896,860	$ 77,362,412
CONSOLIDATED STATEMENTS OF EARNED SURPLUS		
Balance at beginning of year	$475,897,969	$490,008,393
Net income for year	61,896,860	77,362,412
Exploration expenses previously written off now capitalized	1,506,602	—
	$539,301,431	$567,370,805
Deduct:		
Additional Chilean income taxes assessed against prior years' earnings	$ 1,481,044	$ —
Loss on disposal of South African investments	—	36,207,581
Distributions to stockholders, $5 per share	55,265,255	55,265,255
	$ 56,746,299	$ 91,472,836
Balance at end of year	$482,555,132	$475,897,969

See Notes to Financial Statements.

Consolidated Balance Sheets DECEMBER 31, 1961 AND 1960

	1961	1960
ASSETS		
Current assets:		
Cash	$ 24,643,924	$ 29,584,667
U. S. Government and other short-term securities, at cost	81,266,941	86,717,267
Accounts receivable, less reserves	45,617,002	34,759,666
Metals and metal products	99,806,924	101,810,791
Ores and concentrates, at cost	7,173,576	8,264,925
Materials and supplies, at or below cost	39,447,296	39,899,400
	$297,955,663	$301,036,716
Accounts receivable, noncurrent	5,887,875	7,850,500
Investments, at or below cost	83,273,955	83,866,003
Deferred charges, prepayments, etc.	9,118,004	10,026,728
Mining properties	158,277,546	156,157,475
Plants, equipment and other properties	509,566,681	486,414,471
Reserves for depreciation	(249,662,177)	(237,797,797)
	$814,417,547	$807,554,096
LIABILITIES		
Current liabilities:		
Notes payable, due within one year	$ 1,460,000	$ —
Accounts payable	25,700,704	25,776,016
Taxes accrued	26,662,872	27,498,161
	$ 53,823,576	$ 53,274,177
4½% promissory note of The Okonite Company	6,540,000	7,000,000
Sundry reserves and deferred credits	5,576,287	5,459,398
CAPITAL		
Capital stock, no par value:		
Authorized 12,000,000, outstanding 11,053,051 shares		
Stated capital	74,806,424	74,806,424
Capital surplus	191,116,128	191,116,128
Earned surplus	482,555,132	475,897,969
	$814,417,547	$807,554,096

See Notes to Financial Statements.

Historical Table 1942-1961

Operating Information

Year	Copper Ore Mined and Milled (000 Net Tons)	Material Removed to Dumps (000 Net Tons)	Copper Produced: In the U. S. (Net Tons)	Copper Produced: In Chile (Net Tons)	Copper Produced: Total (Net Tons)	Total Copper Sold (Net Tons)
1942	56.458	49.261	470.581	161.800	632.381	649,475
1943	59.515	48.902	472.913	164.276	637.189	640.810
1944	51.023	40.865	406.107	174.688	580.795	601,721
1945	42.421	41.858	329.239	164.899	494.138	485.226
1946	27.502	30.137	203.489	93.725	297.214	280.330
1947	48.154	48.468	369.256	138.472	507.728	509.829
1948	46.971	58.467	350,330	164.252	514.582	538.345
1949	39.816	56.158	296.649	139.592	436.241	407.999
1950	55.018	78.612	418.123	157.910	576.033	589.694
1951	56.168	87.318	430.187	171.247	601.434	605.473
1952	59,015	81.673	444.582	184.813	629.395	634.360
1953	56.147	79.746	429,052	140.347	569.399	524.322
1954	44.611	66.715	338.749	108.330	447.079	509.754
1955	51.589	74.641	370.487	156.228	526.715	533.820
1956	61.203	98.955	402.309	179.896	582.205	495.219
1957	58.292	100.859	387.291	172.707	559.998	552.944
1958	50.628	72.419	318.732	191.578	510.310	543.845
1959	42.577	75.506	235.228	182.017	417.245	434.566
1960	60.734	107.340	384.088	187.221	571.309	540.598
1961	60.628	120.047	395.081	175.893	570.974	591,734

Financial Information

Year	Total Revenue (000 Dollars)	Cost of Goods Sold Excl. Taxes (000 Dollars)	Depreciation and Retirements (000 Dollars)	U. S. and Foreign Income Taxes (000 Dollars)	Taxes Other Than U. S. and Foreign Inc. (000 Dollars)	Other Costs (000 Dollars)	Net Income (000 Dollars)
1942	$261.043	$151,591	$ 6.680	$ 43,071	$ 7,669	$ 3.211	$ 48.821
1943	266.589	158.039	8,774	41,312	8.051	5.447	44.966
1944	253.651	157.569	8.513	35,481	7.712	5.512	38.864
1945	211.217	143.567	14.685	13,512	6.507	2.692	30,254
1946	157.025	104.503	4.132	11.163	5.586	8.594	23.047
1947	318.820	159.804	4.958	49,723	8.719	3.734	91.882
1948	351.100	185.181	5.230	52.344	10.346	4.192	93.807
1949	249.438	157.798	5,234	24,247	10.591	3.458	48.110
1950	400.153	231.206	6.815	58,726	12.825	2.420	88.161
1951	455.485	254.708	7.268	83.036	15.144	3.982	91.347
1952	476.740	287.957	8.509	73,580	14.716	5.827	86.151
1953	482.808	269.416	9.244	90.069	18.798	6.527	88.754
1954	429.131	261.429	8.734	54.323	16.976	9.763	77.906
1955	555.939	252.392	8.905	122.429	20.785	25.912	125.516
1956	578.067	250.435	8.120	138.072	22.900	15.386	143.154
1957	480.200	275.653	10.610	80.368	22.813	11.504	79.252
1958	404.998	250.961	10.351	55.286	21.073	7.206	60.121
1959	444.903	263.909	12.429	63.263	22.210	25.752	57.340
1960	503.341	273.655	17.177	85.633	21.294	28.220	77.362
1961	506.809	303.450	18,555	70,356	23.027	29,524	61,897

Net income figures are as reported annually to stockholders, without adjustment for surplus charges and credits.

Consolidated Balance Sheets DECEMBER 31, 1961 AND 1960

	1961	1960
ASSETS		
Current assets:		
Cash	$ 24,643,924	$ 29,584,667
U. S. Government and other short-term securities, at cost	81,266,941	86.717,267
Accounts receivable, less reserves	45.617,002	34,759.666
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Accounts receivable, noncurrent	5,887.875	7,850,500
Investments, at or below cost	83.273,955	83,866.003
Deferred charges, prepayments, etc.	9,118,004	10,026,728
Mining properties	158.277,546	156,157,475
Plants, equipment and other properties	509,566,681	486,414,471
Reserves for depreciation	(249.662.177)	(237,797.797)
	$814.417.547	$807,554,096
LIABILITIES		
Current liabilities:		
Notes payable, due within one year	$ 1,460,000	$ —
Accounts payable	25,700,704	25,776,016
Taxes accrued	26.662,872	27,498,161
	$ 53,823,576	$ 53,274,177
4½% promissory note of The Okonite Company	6.540,000	7,000,000
Sundry reserves and deferred credits	5,576,287	5,459.398
CAPITAL		
Capital stock, no par value:		
Authorized 12,000,000, outstanding 11,053,051 shares		
Stated capital	74,806,424	74,806,424
Capital surplus	191,116,128	191,116,128
Earned surplus	482.555,132	475,897,969
	$814.417,547	$807,554,096

See Notes to Financial Statements.

Notes to Financial Statements

Inventories:

Inventories of metals and metal products are carried at the lower of cost or market. In general, cost is computed on a "first-in, first-out" method, but a "last-in, first-out" method is used for certain inventories of the fabricating divisions.

Mining Properties:

Over the years the ore reserves have increased as a result of development work and improvements in methods of recovery of metals which make possible the treatment of lower grades of ore. Accordingly, no provisions for depletion have been considered necessary.

Equity in Unconsolidated Subsidiaries:

Refer to comments and tabulation on page 21.

Foreign Currency Amounts:

Foreign currency amounts have been included in the balance sheets at the U. S. dollar equivalents appropriate to the accounts translated: current assets and current liabilities at year-end exchange rates; property accounts and investments, etc., at the rates of exchange in effect at date of acquisition; related depreciation reserves are based on U. S. dollar costs. Foreign currency amounts have been included in the statements of income at the U. S. dollar equivalents determined at the exchange rates in effect at the time of the related transactions.

Approximately 7% of net current assets and approximately 13% of all other assets shown in the consolidated balance sheet at December 31, 1961 represent assets of consolidated subsidiaries which are located outside the United States (principally in Chile) and the related net income represents approximately 18% of consolidated income. The Company's investments in unconsolidated subsidiaries and affiliates are almost entirely in foreign countries, principally Canada.

Long-Term Debt:

The 4½% promissory note of The Okonite Company is payable in annual instalments of $460,000 from 1962 through 1975 and $560,000 in 1976. The $460,000 instalment due in 1962 is included in current liabilities at December 31, 1961.

Auditors' Certificate

LYBRAND, ROSS BROS. & MONTGOMERY, *Certified Public Accountants*

To the Directors and Stockholders of KENNECOTT COPPER CORPORATION:

We have examined the consolidated balance sheet of KENNECOTT COPPER CORPORATION and WHOLLY-OWNED SUBSIDIARIES as of December 31, 1961 and the related statements of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination for the year 1960.

In our opinion, the accompanying consolidated balance sheets and statements of income and earned surplus present fairly the consolidated financial position of Kennecott Copper Corporation and Wholly-Owned Subsidiaries at December 31, 1961 and 1960 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 16, 1962.

Board of Directors

**Charles D. Dickey, *Chairman*, Committee on Trust Matters,
Morgan Guaranty Trust Company of New York

Leland B. Flint, *Chairman of Executive Committee and Vice Chairman of Board of Directors*, Zions First National Bank. Salt Lake City, Utah

**J. Peter Grace, *President*, W. R. Grace & Company

Albert Green, *Vice President*, The Murry and Leonie Guggenheim Foundation and The Murry and Leonie Guggenheim Dental Clinic (Charitable Organizations)

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R. Stuart Keefer, *President*, The Okonite Company

Carl K. Lenz, *President*, Kennecott Sales Corporation

William F. Macklaier, *Senior Partner, Law Firm of* Macklaier, Chisholm, Smith. Davis, Anglin & Laing

**Frank R. Milliken, *President*, Kennecott Copper Corporation

Walter H. Page, *Vice President*, Morgan Guaranty Trust Company of New York

Clifton W. Phalen, *President*, New York Telephone Company

Edward L. Steiniger, *President*, Sinclair Oil Corporation

**Robert G. Stone, *Trustee*

**Albert E. Thiele, *Partner*, Guggenheim Brothers

Wm. Thayer Tutt, *President*, Broadmoor Hotel, Inc.

**Medley G. B. Whelpley, *Retired*

** *Member of Executive Committee*

TRANSFER AGENTS

Morgan Guaranty Trust Co. of N. Y., New York, N. Y.

Boston Safe Deposit and Trust Company, Boston, Mass.

REGISTRARS

Bankers Trust Company, New York, N. Y.

First National Bank of Boston, Boston, Mass.

Historical Table 1942-1961

Operating Information

Year	Copper Ore Mined and Milled (000 Net Tons)	Material Removed to Dumps (000 Net Tons)	Copper Produced: In the U. S. (Net Tons)	Copper Produced: In Chile (Net Tons)	Copper Produced: Total (Net Tons)	Total Copper Sold (Net Tons)
1942	56.458	49.261	470.581	161,800	632.381	649.475
1943	59.515	48.902	472.913	164.276	637.189	640.810
1944	51,023	40,865	406,107	174,688	580,795	601,721
1945	42.421	41.858	329.239	164,899	494.138	485,226
1946	27.502	30.137	203.489	93,725	297.214	280.330
1947	48.154	48.468	369.256	138.472	507.728	509.829
1948	46.971	58,467	350,330	164.252	514.582	538.345
1949	39.816	56.158	296.649	139.592	436.241	407.999
1950	55,018	78.612	418.123	157.910	576.033	589.694
1951	56.168	87.318	430.187	171.247	601.434	605,473
1952	59.015	81.673	444.582	184.813	629.395	634.360
1953	56.147	79,746	429,052	140.347	569.399	524.322
1954	44.611	66.715	338,749	108.330	447,079	509,754
1955	51.589	74.641	370.487	156.228	526.715	533.820
1956	61.203	98.955	402.309	179.896	582.205	495.219
1957	58.292	100.859	387.291	172,707	559.998	552,944
1958	50.628	72.419	318.732	191,578	510.310	543.845
1959	42.577	75,506	235.228	182,017	417.245	434.566
1960	60.734	107,340	384,088	187.221	571.309	540.598
1961	60.628	120.047	395,081	175,893	570.974	591,734

Financial Information

Year	Total Revenue (000 Dollars)	Cost of Goods Sold Excl. Taxes (000 Dollars)	Depreciation and Retirements (000 Dollars)	U. S. and Foreign Income Taxes (000 Dollars)	Taxes Other Than U. S. and Foreign Inc. (000 Dollars)	Other Costs (000 Dollars)	Net Income (000 Dollars)
1942	$261.043	$151.591	$ 6.680	$ 43.071	$ 7.669	$ 3.211	$ 48.821
1943	266.589	158.039	8.774	41,312	8.051	5,447	44.966
1944	253.651	157.569	8.513	35,481	7,712	5.512	38.864
1945	211.217	143.567	14.685	13,512	6.507	2.692	30.254
1946	157.025	104.503	4.132	11.163	5,586	8.594	23.047
1947	318.820	159.804	4.958	49.723	8.719	3.734	91.882
1948	351,100	185,181	5,230	52,344	10.346	4.192	93.807
1949	249.438	157.798	5.234	24,247	10,591	3.458	48.110
1950	400.153	231.206	6.815	58,726	12.825	2.420	88.161
1951	455.485	254.708	7.268	83.036	15.144	3.982	91.347
1952	476.740	287.957	8.509	73,580	14.716	5,827	86.151
1953	482.808	269.416	9.244	90.069	18.798	6.527	88,754
1954	429.131	261.429	8.734	54,323	16.976	9,763	77.906
1955	555.939	252.392	8.905	122.429	20.785	25.912	125,516
1956	578.067	250,435	8.120	138,072	22.900	15.386	143.154
1957	480.200	275.653	10.610	80.368	22.813	11.504	79,252
1958	404.998	250.961	10.351	55,286	21,073	7.206	60.121
1959	444.903	263.909	12.429	63.263	22.210	25,752	57,340
1960	503.341	273.655	17.177	85,633	21.294	28.220	77.362
1961	506.809	303.450	18,555	70,356	23,027	29,524	61,897

Net income figures are as reported annually to stockholders, without adjustment for surplus charges and credits.

Price Received for Copper (Cents per Lb.)	Molybdenite Produced (000 Pounds)	Gold Produced (Fine Ounces)	Silver Produced (Fine Ounces)	Average Number of Employees	Grade of Copper Ore Mined: In the U. S. (Per Cent)	Grade of Copper Ore Mined: In Chile (Per Cent)	Capital Expenditures (000 Dollars)	Year
11.7	23.818	333.158	2.650.206	28.797	1.042	2.179	8.164	**1942**
11.7	24.572	344.357	3.059.286	29.005	.996	2.079	9.768	**1943**
11.7	25.071	313.386	2.693.558	27.143	1.005	2.269	6.370	**1944**
11.6	21,437	258.556	2.183.964	24.526	.995	2.203	2.990	**1945**
14.0	12.335	155.749	1.305.283	23.483	.965	2.133	9.900	**1946**
21.0	25.777	391.497	3.128,766	25.887	.960	2.110	12.037	**1947**
21.9	22.253	338.228	2.823.068	26.210	.946	2.220	10.329	**1948**
19.5	19.895	296.818	2.384.043	24.807	.955	2.140	18.023	**1949**
21.0	29.407	450,174	3.586.763	26.152	.958	2.090	13.960	**1950**
24.4	30.837	430.515	3.441.549	26.594	.987	2.110	13.126	**1951**
24.3	34.480	430.139	3.679.035	26.898	.952	2.151	14.908	**1952**
28.0	35.224	487.335	3.911.928	28.024	.942	2.106	16.170	**1953**
28.0	28.200	387.039	2.852,744	25,474	.943	2.110	8.748	**1954**
36.6	31.960	414.444	3,445,762	27.158	.914	2.046	16.006	**1955**
41.6	32.538	403.381	3.213,559	27.886	.843	2.014	21.244	**1956**
28.9	28.756	377.367	3.295,170	26.752	.839	1.963	27.332	**1957**
25.4	23.626	313.380	2.821.364	23.041	.851	1.948	39.667	**1958**
30.0	20.967	240.179	2.167.469	27.231	.816	1.938	85.254	**1959**
31.0	27.426	396.839	3.700.784	27.205	.809	1.993	25.342	**1960**
29.3	25.814	363.586	2.926.993	26.885	.831	1.909	32.892	**1961**

Net Income Per Share					Distributed to Stockholders		Total Assets (000 Dollars)	Capital and Surplus (000 Dollars)	Book Value Per Share	Year
	By Quarters									
Total	1st	2nd	3rd	4th	(000 Dollars)	Per Share				
$ 4.51	$ .94	$1.09	$1.14	$1.34	$ 32,465	$3.00	$469.550	$385.644	35.64	**1942**
4.15	1.16	.90	.98	1.11	32.465	3.00	489.774	398.145	36.79	**1943**
3.59	1.02	.97	.90	.70	27,054	2.50	490.270	409.955	37.88	**1944**
2.79	.78	.73	.47	.81	27.054	2.50	464.800	412.875	38.15	**1945**
2.13	.26	.16	.59	1.12	27.054	2.50	459.670	408.868	37.78	**1946**
8.49	1.90	2.36	2.20	2.03	43.287	4.00	540.612	457.463	42.27	**1947**
8.67	2.14	2.32	2.33	1.88	54.108	5.00	575.420	497.683	45.99	**1948**
4.45	1.51	.64	.83	1.47	43.287	4.00	560.283	502.507	46.44	**1949**
8.15	1.55	1.94	2.20	2.46	59.519	5.50	631.487	551.667	50.98	**1950**
8.44	2.33	2.32	1.90	1.89	64.930	6.00	687.473	578.084	53.42	**1951**
7.96	2.03	1.73	2.03	2.17	64.930	6.00	703.532	600.567	55.50	**1952**
8.20	2.15	2.03	1.87	2.15	64.930	6.00	747.630	620.593	57.35	**1953**
7.20	1.70	2.19	1.47	1.84	64.930	6.00	730.867	637.893	58.95	**1954**
11.60	2.68	3.37	1.53	4.02	83.868	7.75	793.221	679,542	62.79	**1955**
13.23	4.08	4.16	2.48	2.51	100.100	9.25	833.998	723.200	66.83	**1956**
7.32	2.57	1.99	1.45	1.31	64.930	6.00	807.452	737.521	68.15	**1957**
5.44	1.05	1.02	1.34	2.03	54.340	5.00	825.678	764.909	69.20	**1958**
5.19	2.03	2.29	.99	(.12)	66.318	6.00	802.839	755.931	68.39	**1959**
7.00	1.65	2.21	1.82	1.32	55.265	5.00	807.554	741.821	67.11	**1960**
5.60	1.46	1.82	1.04	1.28	55.265	5.00	814.418	748.478	67.72	**1961**

Net Income per Share and Book Value per Share are based on number of shares outstanding at December 31st of each year.

Officers and Executives

Parent Company

FRANK R. MILLIKEN, *President*

JOHN D. EAST, *Assistant to the President*

C. HARRY BURGESS, *Vice President* (Exploration)

PAUL DASHINE, *Manager of Technical Services*

M. D. AYERS, *Director of Engineering*

LESLIE G. JENNESS, *Vice President* (Research)

ROBERT G. RHETT, *General Purchasing Agent*

LEON J. SOUREN, *General Traffic Agent*

S. S. JACKSON, *Vice President* (Administration)

PAUL B. JESSUP, *Secretary*

JAMES R. SIMPSON, *Assistant Secretary*

LESTER ZIFFREN, *Director of Public Relations*

ROBERT H. LOUNSBURY, *General Counsel*

ARTHUR S. CHEROUNY, *Director of Employee Relations*

E. M. HARRIS, JR., *Associate Counsel*

C. D. MICHAELSON, *Vice President* (Mining)

GORDON B. RUSSELL, *Treasurer & Comptroller*

F. A. EGNER, *Assistant Treasurer*

W. R. KIMSEY, *Assistant Comptroller*

MARVIN LYDING, *Assistant Comptroller*

ROBERT L. WARD, *Assistant Comptroller*

JOHN C. KINNEAR, JR., *General Manager*, Western Mining Divisions

E. A. SLOVER, *General Manager*
Chino Mines Division

M. J. O'SHAUGHNESSY, *General Manager*
Nevada Mines Division

A. P. MORRIS, *General Manager*
Ray Mines Division

J. P. O'KEEFE, *General Manager*
Utah Copper Division

I. G. PICKERING, *Refinery Manager*, Kennecott Refining Corporation

Principal Subsidiaries

Kennecott Sales Corporation

C. K. LENZ, *President*

J. H. BOYD, *Vice President*

J. M. KEENE, JR., *Vice President*

F. B. MCKOWN, *Vice President*

Braden Copper Company

FRANK R. MILLIKEN, *President*

R. M. HALDEMAN, *Vice President* (In Chile)

B. E. GRANT, *General Manager* (In Chile)

CARLOS TOLOSA, *Business Manager* (In Chile)

PAUL B. JESSUP, *Secretary*

GORDON B. RUSSELL, *Treasurer & Comptroller*

Quebec Iron and Titanium Corporation

(Two-thirds owned by Kennecott Copper Corp. and one-third by The New Jersey Zinc Company)

WILLIAM L. WALSH, *President*

LINDSAY F. JOHNSON, *Vice President*

J. M. HERNDON, *General Manager*

Chase Brass & Copper Co., Incorporated

GLENN P. BAKKEN, *President*

WILLIAM H. PRESTON, *Executive Vice President*

WILLIAM F. AYLARD, *Vice President* (Technical)

GILBERT R. BOUTIN, *Vice President* (Operations)

HERMAN H. KREMER, *Vice President* (Metal Service Division)

PAUL M. THOMAS, *Vice President* (Metal Sales)

ROBERT C. SMITH, *Treasurer*

RICHARD R. QUAY, *Secretary*

The Okonite Company

R. STUART KEEFER, *President*

DAVID W. NURSE, *Vice President* (Manufacturing)

ELLIOTT M. NESVIG, *Vice President* (Marketing)

CHARLES M. KIRKLAND, *Vice President*

STEPHEN A. WILSON, *Vice President, Secretary and General Counsel*

DR. ROBERT B. BLODGETT, *Director of Research*

RAYMOND V. TESTA, *Treasurer and Comptroller*

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H. M. PETERSON, *Vice President and General Superintendent*

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